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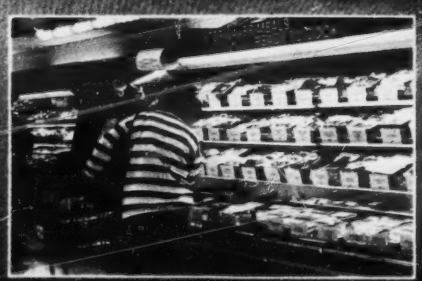

...As Packaged Meals To Go

...As Semi-Prepared, With Cooking Advice

...As Custom Cuts Sold With Side Dishes

AUGUST 1989

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NEW TWISTS NEEDED IN MARKETING RED MEAT MIKE DUFF **17**

Fresh red meat is still in the throes of trying to cast off its "commodity" status while moving into modern product marketing. Declines have stabilized, but much more work needs to be done at the supermarket to motivate all segments of the system.

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Shopping this store may leave some shoppers blinking...and not just in amazement at its high product quality and service.

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COSTING OUT PREPARED FOODS DAVID LITWAK **11A**

More deli foods are now prepared instore, and operators are being forced to use the same product costing methods as restaurants. Here, four experts show you how to do it right.

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BPA ABP

By Ken Partch, Editor-in-Chief

Private Label Hysterics, Again

Things get kind of dull in the grocery industry in the summer, so it's a good time to launch a new study on private labels. The latest comes to us from SAGE Worldwide, the Ogilvy market research group, and guess what they have found? Private labels are bad for you.

Taking pot shots at private labels often reminds me of the western movie, where the new gunslinger comes to town looking for the aging gunslinger to earn a "rep" as top gunslinger. SAGE is kind of new to the grocery business, so I suspect they didn't realize that the private label vs. advertised brands issue is a well shot-up target that is hardly worth wasting more ammunition on. At any rate, it is an issue that is not likely to produce much that is new.

And if it does, I'd be highly suspicious of the findings. I am a little surprised, however, that the study was sponsored by Miles, Inc., and Kellogg's. Being closely associated with the advertising business myself, I would like to believe some of the more outstanding findings, but logic tells me otherwise.

According to a June 23 *Ad Age* article, these were some of the findings:

1. Private labels present a growing danger to the packaged-goods industry by threatening ad budgets of national brands and forcing marketers to compete with price promotion.

2. When private labels dominate, unit sales go down, and advertising-to-sales ratios go down.

3. When private label sales exceed 15 percent in a category, tonnage declines, manufacturer support evaporates and category profits erode.

4. Store brands aren't as profitable for retailers as they may believe, and private labels have a negative impact on weekly gross profits for the entire category.

That's quite a list. These are the immediate reactions that come to mind, taking one point at a time:

1. If private labels threaten the ad budgets of national brands, why is that a bad thing? The ad budget is supposed to produce sales. If it doesn't, then there is either something wrong with the ads or the products or both. Then, if sales and price promotions work better than advertising, why shouldn't the packaged goods marketers use them?

2. I can see that ad-to-sales ratios go down when private labels dominate, but I'd like to see the proof that total unit sales go down. In every category? In those categories studied (dishwashing detergents, diet sweeteners, fabric softeners, internal analgesics, mayonnaise, sanitary napkins and facial tissues)? Not according to our own Consumer Expenditures Study, which will be published next month. With the exception of sanitary napkins, every one of the above categories is up in dollars, if not in units.

> 'Too much advertising is playing to furniture—sofas, vacant sofas—a few armchairs, maybe, and an ottoman, here and there.'
> —Stan Freberg

According to SAMI, in five of the categories on which I have data, these are the market shares by tonnage for '88 vs '87:

—Dishwashing detergent, P&G, 46.9%; Lever, 24.4%; Palmolive, 11.3%; PL, 9.9%; total, up 0.2% in '88.

—Fabric softeners, P&G, 50.5%; Lever, 27.4%, PL, 15.6%; total, up 2.2%.

—Internal analgesics, J&J, 28.1%; American Home, 17.7%; Sterling Drug, 10.5%; Bristol-Myers, 9.5%; PL, 12.6%; total, up 2.7%.

—Mayonnaise, CPC Intl., 48%; Kraft, 21.2%; PL, 14.5%; total, up 2.0%.

—Facial tissues, Kimberly-Clark, 40.7%; P&G, 20.8%; Scott, 10.4, PL, 27.7; total, down 1.5%.

From these examples, I can draw no firm conclusions. In each of the categories there were numerous other brands with smaller shares of market. But what would be the point of having a PL in a category that was not at least third in volume in the category? By the same token, the retailer would be foolish to want to totally dominate a category, because unless the product is in a "must have" category, the retailer would then have to assume some of the cost of marketing himself, just as they do in Great Britain.

3. What is magic about 15 percent of a category? And why should profits go down? As unfair as it may seem, the whole idea of a private label is to save the cost of marketing and pass part of the saving on to the consumer and keep part, while selling "under" the national brand.

4. Private labels not profitable? I think this is going to be a very difficult "sell" to retailers.

I think there is something wrong with the entire premise of this SAGE study. If advertised national brands have problems, I have strong doubts that the fault lies with private labels. And if marketers are spending more of their advertising dollars on sales promotions rather than on consumer advertising, I think the problem lies elsewhere, as well. Perhaps to some extent, marketers themselves no longer believe as strongly in the effectiveness of consumer advertising.

Perhaps the fault here lies not in the principle of consumer advertising, but in how it is being done.

In a recent issue of *Leaders* magazine, Stan Freberg, the

Continued on page 11

BRITAIN'S SUPERMARKETS

AN INDUSTRY IN TURMOIL

BY DAVID ROGERS

The recent $3.3 billion bid for the Gateway supermarket chain by A&P and a New York investment group (Wasserstein Perella) is a reflection of the fact that Britain's supermarket industry is now in a state of flux not seen for some years.

Takeovers, acquisitions, mergers and foreign entries are promising to change the complexion of the industry in dramatic fashion—perhaps even exceeding the volatile norms of the U.S. supermarket industry.

Some of the more recent developments are as follows:

● Gateway (a conglomerate of different store formats) fought off a bid by the much smaller Barker and Dobson/Budgen group in 1987, but is now the subject of competing bids by A&P (friendly) and Isosceles (unfriendly).

One of Gateway's problems has been an ill-advised expansion into U.S. nonfood retailing through the purchase of Herman's (the sporting goods chain). However, in recent years, it has achieved greater increases in profits than it has been given credit for by the London (International) Stock Exchange.

Given a great degree of change, are there implications for U.S. retailers? Here are some answers.

Gateway is Europe's fifth largest retailer with 831 stores, sales totaling $8 billion and a selling area of approximately nine million square feet.

● Argyll stores acquired Safeway from its U.S. parent in February 1987 and has successfully converted many of its lackluster Presto stores to the "traded up" Safeway format or to the Lo-Cost limited assortment store concept.

Argyll has stated that it plans to enter the U.S. in the early 1990s, but for now is focusing on Europe by linking management and distributive resources with France's Casino and Ahold of the Netherlands.

Marks & Spencer has annual food sales of approximately $2.8 billion.

● Marks & Spencer is reportedly rolling out more "food only" stores: 50 more are planned in the next three years on top of the existing 15 branches. It will be interesting to follow the cross-fertilization of ideas likely to take place between these stores and the Kings supermarkets in New Jersey (an M&S subsidiary).

Marks & Spencer is already a major food retailer in Britain—through the food halls in its variety stores—and has annual food sales of approximately $2.8 billion.

● Tesco has been the "success story" of British supermarket retailing during the 1980s, and is widely accepted to be a world leader in store design, operations and marketing analysis. It is now estimated to be the grocery market leader in Britain with 379 stores and more than eight million square feet of selling space.

Perhaps concerned about foreign entrants into the U.K., Tesco has recently announced a $1.5 billion investment in 60 new stores in northwest England. This complements its 1987 acquisition of the Hillard's chain (also in the north of England).

● William Low (with 68 stores) is expanding southward into England from Scotland and recently made—and broke off—a proposed bid for Budgen's (142 stores). Both chains operate relatively small conventional supermarkets.

● Sainsbury has been the traditional "image leader" in British supermarket retailing and is known for its "surefootedness" in business expansion planning.

Sainsbury has successfully expanded into the U.S. through its acquisition of Shaw's; has a successful home center joint venture (Homebase) with GB-Inno-BM of Belgium; and has recently bought out its joint venture partner (the troubled Storehouse) in the Sava Centre hypermarkets.

Earlier this year, Iceland (a frozen foods specialist) acquired

For an extended period of time, British supermarket retailing has been 'stable' in the sense that there has been a relentless trend to concentration, assisted by population density and ease of communication.

Bejam (the then-market leader) and sold the latter's Victor Value limited assortment stores to Lo-Cost (the Argyll division).

- Aldi of West Germany has arrived in Britain this year through the acquisition of six sites, promising an intense future battle between three operators of limited assortment stores in Britain (Kwik Save, Aldi and Lo-Cost).

Kwik Save (with more than 650 limited assortment stores) continues to hold the dominant position at the "price" end of the British grocery market, and is a very well-run chain partially owned by Dairy Farm of Hong Kong. Expansion into London is now Kwik Save's main priority.

- Asda, the super store operator, has suffered a malaise during the 1980s following rapid and successful expansion in the 1970s. Extensive senior level management changes have occurred recently, presumably with the objective of re-energizing the chain. U.S., Australian, French and German retailers have all been mentioned recently as possible bidders for Asda.
- French hypermarket retailers have recently analyzed the British grocery market, but to date have made no moves.

This catalog of change and instability has not been "British." For an extended period of time, British supermarket retailing has been "stable" in the sense that there has been a relentless trend to concentration assisted by the density of population and ease of communications in a small island.

Chains are expanding

Over the last 20 years, the chains (termed multiples in Britain) have expanded their store counts and market shares at the expense of independent grocers and consumer co-ops (the Cooperative Societies). For example, using Nielsen estimates, the number of grocery stores in Britain fell dramatically from 105,000 in 1971 to under 55,000 by 1986. During the same time period, supermarket chains expanded their market share from 44 percent to 72 percent.

The independents and co-ops have provided a comfortable "cushion" for the chains as they expanded, but this has now come to an end and the chains are increasingly battling each other for market share (see Figure 1). As in the U.S., this battle is resulting in the closing of small supermarkets by new super stores.

There is still a long way to go in the process, since there are only 500 super stores in Britain ("super stores" are defined as more than 25,000 sq. ft. in size) and the average size of chain supermarkets is a relatively small 10,800 sq. ft. The small size of many British supermarkets is one of the main reasons for the very high sales per square foot, which are the envy of the U.S. supermarket industry.

Trade "pundits" in Britain have—as elsewhere—"straight-lined" the process of concentration in the British market to just three dominant chains by the 1990s (Tesco, Sainsbury and A.N. Other)!

FIGURE 1
SHARES IN THE BRITISH GROCERY MARKET

Tesco	14.2%
J. Sainsbury	14.1
Gateway	11.4
Safeway/Argyll	10.2
Asda	7.7
Kwik Save	2.9
Waitrose	2.6
Iceland	2.3
Wm. Low	2.0
Morrisons	1.7
Subtotal	69.1

Source: Verdict Research, London.
Note: Excludes the various Co-operative Society stores.

However, this simple-minded analysis has ignored the consumer's desire for choice, not to mention the inability of any one chain to adequately serve a wide variety of market segments. For example, Sainsbury is still not a truly national retailer in Britain, having only a limited number of stores in the north of England and few in Scotland.

The progressive concentration theory also ignores the continued existence of small regional chains, such as William Low, Morrison's, Norman's and Grandways, and is now being further disproved by the entry of foreign retailers into Britain (most notably A&P and Aldi). Given these trends in British supermarket retailing, are there any implications for U.S. supermarket retailers?

Implications for the U.S.

First, the current trauma in the British grocery market is likely to dull the ambitions of some of the major British chains to acquire U.S. supermarket chains—in the short term, at least.

This effect is also being reinforced by the current hype about "Europe 1992" and the desire of

Continued on page 55

FIGURE 2
TRENDS IN OPERATING (NET) MARGINS

	1984	1989 Est.
Argyll/Safeway	3.1%	5.3%
Asda	5.3	7.0
Gateway	2.7	5.2
Sainsbury	4.9	7.1
Tesco	2.7	5.8

Source: *Supermarketing* magazine, London.

FIGURE 3
ESTIMATED TOTAL SALES

	$ Billions
Gateway	8.02
Sainsbury	7.48
Marks & Spencer	7.14
Tesco	6.43
Argyll/Safeway	5.05
Asda	4.26

Source: Management Horizons UK. Various years from 1986 onwards.

Tesco is known for store design, operations and marketing analysis.

SAMI FOUR-WEEK FOOD STORE UNIT TRENDS VS. YEAR AGO

PRODUCT GROUP AND CATEGORY	% CHANGE VS. YEAR AGO 4 WEEKS ENDING 3/24/89	4 WEEKS ENDING 4/21/89	4 WEEKS ENDING 5/19/89
BABY NEEDS			
Baby Powders	– 5.1	+16.5	+ 0.9
Baby Oils, Creams & Lotions	– 9.5	–11.5	–14.3
Infant Clothes	– 4.4	–10.1	–10.0
Nursing Supplies	+ 1.2	+ 2.2	+ 1.6
DEODORANTS			
Sprays	– 6.0	+ 4.9	+ 5.5
Roll-Ons	– 4.0	– 7.8	– 3.9
Stick Deodorants & Pads	+ 3.7	+ 6.2	+ 4.0
Creams	–11.4	– 9.6	–10.3
Deodorants & Talcum Powders	– 3.9	–18.8	– 0.5
Feminine Hygiene Deodorants	+24.1	+15.6	– 2.5
Foot Deodorants & Athlete's Foot Remedies	+ 1.8	+ 0.1	+ 8.8
Feminine Douches	– 1.4	+ 7.1	– 0.1
FIRST AID			
Antiseptics	– 7.7	– 2.1	+ 1.2
First Aid Products	– 2.4	+ 1.8	– 0.5
HAIR CARE NEEDS			
Shampoos	+ 2.5	– 0.5	+ 1.1
Hair Sprays	– 1.8	+ 2.1	– 1.7
Hair Conditioning Rinses	+ 6.2	+ 4.2	+ 2.7
Hair Setting Needs	+ 3.7	+ 5.1	+ 3.0
Home Permanent Kits	– 9.1	– 3.2	– 4.8
Hair Coloring	– 1.5	– 7.4	– 5.8
Hair Dressing Needs	–12.9	– 8.7	– 8.9
ORAL HYGIENE			
Toothpastes & Powders	– 4.2	– 6.6	– 6.1
Mouthwashes	+ 2.0	– 4.9	– 1.7
Breath Fresheners	– 3.1	+ 6.6	– 0.8
Denture Cleaners	– 9.9	– 1.4	+ 0.6
Denture Adhesives	– 2.8	– 2.9	+ 2.1
Toothbrushes	– 3.9	+ 0.9	– 0.1
Dental Aids	– 3.8	+ 6.2	– 5.2
PROPRIETARY REMEDIES			
Antacids	– 6.7	– 6.9	–10.3
Internal Analgesics	– 1.1	– 3.7	– 4.6
External Analgesics	– 4.5	– 9.5	– 4.0
Cold Remedies	+ 4.0	+ 0.3	+ 1.0
Nasal Sprays—Drops—Inhalers	–10.8	–12.9	–10.1
Chest Rubs	+ 3.3	– 7.6	–12.4
Cough Remedies	– 2.9	– 7.0	– 9.5
Laxatives	+ 0.6	– 3.1	– 5.1
Sleeping Aids	+ 1.5	– 4.0	– 4.6
Tranquilizers	+ 1.1	– 3.5	– 7.4
Synthetic Vitamins	+ 0.3	– 2.3	– 9.5
Eye Care Products	+ 7.0	+ 6.5	+ 6.5
Appetite Suppressants	–22.9	–17.4	–10.3
SHAVING NEEDS			
Shaving Creams	–13.0	+ 5.8	+ 1.2
Pre-Shave Lotions	– 4.2	+ 5.9	+ 6.0
After-Shave Lotions	– 5.6	–15.7	–14.5
Razor Blades	– 0.6	+ 0.6	– 8.0
Razors & Blades	+ 4.2	+ 3.3	–11.1
SKIN CARE			
Hand & Body Creams & Lotions	+14.9	+ 9.4	– 1.1
Facial Preparations	– 2.0	+ 1.1	+ 4.2
Lip Care Products	+ 0.7	–15.6	–14.7
Suntan Lotions & Oils	+19.5	– 3.9	– 2.9
Cosmetic & Medicated Skin Aids	– 3.9	+ 4.7	– 6.7
COSMETICS			

HBA And Other Nonfoods Move Downward In May, Continuing 1989 Weakness

No new and national health and beauty aids brands were launched during the most recent four-week period.

BY ALAN MILLER JR.

Movement of health and beauty aids in food stores continues to be sluggish. During the 28 days ending May 19, 1989, there were 8.7 million fewer HBA items in categories tracked by Arbitron/SAMI than in the corresponding year-ago reporting period. The loss amounted to 3.3% and would have been more drastic, if not for the fact that in the May 1988 period the unit gain of 4.6% and the dollar gain of 7.5% led all other SAMI departments.

Thus, the downward trend was poised against a particularly strong trend in May '88 vs. May '87. The sales weakness for HBA products in food stores was mirrored in drugstores, when a decline in unit movement amounted to 2.0%.

No national rollouts

There were only 19 new HBA brands introduced in any combination of SAMI marketing during the 1989 28-day span, and none of these new products was marketed in more than three markets. This evidence that new brand proliferation in 1989 is not measuring up to historical importance in health and beauty aids can be cited as a major factor in the current sales weakness in the department.

Unit volume of dry grocery nonfoods items trailed last year's performance by 1.3%. The food departments all had tonnage gains in the most recent tracking period, led by a 4.5% poundage increase for refrigerated foods. The gain for shelf-stable foods amounted to 1.6%, while frozen food poundage moved 1.3% ahead of last year's level.

All departments enjoyed increases in retail dollar sales for the May reporting period. The dollar gain for dry grocery nonfood was 7.3% and hit 7.0% in the dollar case of dry grocery food items. Lesser gains were recorded in the frozen (+5.2%) and refrigerated (+6.4%) foods, and HBA products managed a modest 1.5% dollar gain rate.

Deodorants only winner

The only product group with a four-week volume increase in food stores was among personal deodorants. The highest loss rate was the 6.5% dip for baby needs, followed by a loss of 5.5% (nearly 4.4 million units) for proprietary remedies. Only 13 of the 52 product categories in the accompanying table were in the plus column.

There are three more HBA categories in which Arbitron/SAMI is monitoring volume, but as yet there aren't two full years of data for trending purposes. There were four-week food store unit volume gains in each of these three product categories. Sales of home testing kits rose 36.1%, personal lubricant unit volume increased 12.8% and contraceptive sales were 7.9% higher than in the May '88 period.

Moving from product group to product group we see that among baby needs there were losses in three out of four categories. Even for baby powders, which had a strong surge in the preceding period (+16.5%), this gain rate did not continue into May and a loss of 0.9% was found. Double-digit loss rates were noted in the past two reporting periods for baby oils, creams and lotions and infant clothes. On the other hand there was a gain for nursing supplies in both periods. The 52-week sales of baby needs are 2.6% below the level for the prior year.

Three of the eight categories of personal deodorants were in the plus column: sprays (thanks to new product activity from Mennen and Bristol-Myers within the past year) advanced 5.5% and stick deodorants, the leading category in both dollars and unit sales through food stores, had an increase amounting to 3.8%.

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SAMI UPDATE

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Sales of foot deodorants and athlete's foot remedies were 8.8% higher during the four weeks—about the same gain rate as on an annual basis (+8.7%). The highest losses were for cream deodorants (−10.3%) and roll-ons (−3.9%) Both of these categories are behind last year's pace on a 52-week basis as well.

Both first aid categories had reduced four-week unit volume—1.2% in the case of antiseptics and −0.5% for first aid products (bandages, cotton swabs, first aid kits and the like.) On an annual basis antiseptics are ahead 0.9% in units; first aid products trail by 2.2%.

Two hair care gainers

Two categories of hair care needs managed to work their way into the winner's circle: hair conditioning rinses, up by 2.7%, and hair setting needs, ahead of last year's unit sales by 3.0%. The gain streak enjoyed by hair sprays was apparently ended for the time being and shampoos showed a slight loss, both for the four weeks (−1.1%) and for the year (−0.7%). There was a loss of 4.8% for home permanent kits and even higher loss rates for hair coloring (−5.8%) and hair dressing needs (−8.9%).

Almost 1.9 million fewer units of toothpaste and powder were sold during the May 19 reporting period, resulting in a loss rate of 6.1% for the category. Four-week mouthwash sales fell 1.7%, which contrasted with an annual unit gain rate of 3.3%. There were small gains for denture cleaners and denture adhesives, a trend that may be expected to continue as the median age of consumers rises.

Most proprietaries drop

Of the 14 categories of proprietary remedies that SAMI measures, there were only two with four-week unit sales gains over the comparable year-earlier period. Cold remedies eked out a 1.0% gain and eye care products moved forward 6.5%, just under their 52-week gain rate of 7.5%.

There were four proprietary remedy categories which suffered double-digit loss rates: appetite suppressants (−11.3%), chest rubs (−12.4%), antacids (−10.3.%) and nasal sprays-drops-inhalers (−10.1%). Volume of internal analgesics fell 4.6% and this loss rate was based upon a decline of more than 1 million units during the 28-day period. Both vitamin categories were in arrears (9.5%, in the case of synthetic vitamins).

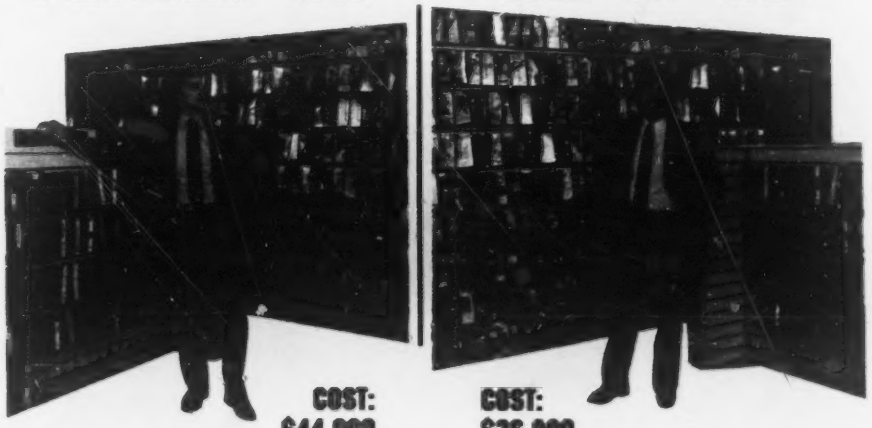
Two of the five categories of shaving needs were among the gainers: shaving creams (+1.2%) and pre-shave lotions (+8.0%). An absence of important new product activity was responsible for losses among after-shave lotions (−14.5%), razor blades (−8.0%) and razors and blades (−11.1%).

Skin care is off, too

Finally, in skin care needs, a product group that can usually be relied on for growth, for the second period in a row a loss was found (3.8%). The only category with a gain rate was facial preparations, which ran ahead 4.2%, higher than in the preceding four-week period (+1.1%).

Volume for lip care products lagged 14.7% behind last year's performance, while there were losses amounting to 2.9% for suntan lotion-suntan oil and 6.7% for cosmetic and medicated skin aids. ■

THE HARD WAY. THE VBI WAY.



COST: $44,000

COST: $26,000

Mr. Brown spent over $40,000 to stock his video department with brand new tapes.

Not to mention the long hours he spent choosing the right titles, or the parade of vendors he had to contend with, or the tedious processing of all his inventory.

You might say Mr. Brown learned the hard way.

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LETTER TO THE EDITOR

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addressed to all participants who attended the Retail Vacuum Packaging Conference sponsored by the Central States Association of Food and Drug Officials on March 29-31 in Chicago, Shirley Bohm, program manager, Food Section Division of Food, Drugs and Dairies of Illinois Department of Public Health, writes:

"The work group concerned with fully cooked, commercially processed meats and cheese agreed that retail vacuum packaging using the guidelines would be acceptable provided these products would not support C. botulinum growth. An acceptable product list could be drawn up indicating foods safe to hermetically seal in a reduced oxygen atmosphere under appropriate sanitation guidelines."

The examples from the U.K. which are quoted in your article have nothing to do with the Bizerba Deli Factory concept. According to your article, these items were chilled and reheated and this is a technology that is similar to *sous vide*. All vacuum packaging concepts are not the same.

The Deli Factory concept is nothing new. Such vacuum packaging at retail level has been successfully done in Europe and Canada for decades without a single incident of C. botulinum, which is FDA's major concern.

Thank you.

Peter R. Buss
President
BIZERBA USA Inc.
Piscataway, N.J.

SUPERMARKET BUSINESS replies:

Some salient points regarding Peter Buss's letter and our article should be noted:

During the course of our reporting, FDA officials including Tom Schwarz expressed serious concern about instore packaging, including fears that faulty packaging procedures would result in illness. They further pointed out that they had no intention of establishing binding regulations, either to restrain operators who may mishandle instore packaging, or to establish generally accepted minimum safety standards.

While many states will ag with and largely follow th viewpoints expressed by FDA, each has separate regulations

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